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METRIX

40,000

Chinese fans are expected to travel to Russia to watch the 2018 football World Cup even though China did not qualify for the event. **According to preliminary figures from FIFA**, football’s world governing body, Chinese fans rank 9th in a list of countries with the most supporters at the tournament which begins on Thursday. Millions of Chinese will watch the matches live on television. Chinese state broadcaster CCTV has sold advertisement worth **five billion yuan** (664 million EUR) during the tournament. A team of 70 CCTV staff has been sent to Russia to report the World Cup.

TOPIC OF THE WEEK: TRUMP-KIM SUMMIT

China hopes to benefit from Trump-Kim summit

China has embraced the summit between US president Donald Trump and North Korean leader Kim Jong Un on June 12 and could emerge as a clear winner of the historic meeting. Speaking at a news conference in Beijing, foreign minister Wang Yi expressed support for the “equal talks” in Singapore and hailed China’s “**unique and important**” role in the process leading up to the summit. China’s state-run media called the meeting a “success” and something China had long been “working toward.”

Debate on social media was somewhat more diverse although discussions appeared heavily censored. Some commentators called the meeting in Singapore a historic moment while others cautioned that it was too early to tell whether the meeting was a success.

China is North Korea’s largest trading partner and most powerful ally but was not present at the summit in Singapore. Yet Trump’s surprise announcement that the US would end military exercises with South Korea is in line with Chinese demands. The measure, known as the “freeze for freeze” initiative, was first proposed by Beijing last year.

Trump initially rejected the proposal, in which North Korea would stop conducting nuclear and missile tests in exchange for a halt in military exercise between the US and South Korea. Wang Yi said after the Trump-Kim summit, “the China-proposed ‘suspension for suspension’ initiative has materialized and now the situation is moving forward.”

China could benefit in other ways as well: Soon after the summit’s conclusion, a Chinese foreign ministry spokesperson suggested the lifting of sanctions against North Korea, which might indicate that Beijing is sufficiently pleased with the recent trajectory of Sino-North Korean relations after frictions had prevailed since early 2017 over North Korea’s strategic posture.

In the run-up to the Singapore meeting China had worked hard not to be side-lined on the North Korean issue. China’s president Xi Jinping met twice with Kim in China. The North Korean leader even borrowed an Air China 747 to get to Singapore so **he didn’t have to rely** on his own Soviet-era plane.

Helena Legarda, research associate at MERICS:

“China clearly welcomes the talks between the United States and North Korea and stands to benefit from them. That Trump and Kim have agreed on measures similar to China’s ‘freeze for freeze’ proposal can be considered a diplomatic success for Beijing. China now wants to ensure that it plays a key role in further talks. Beijing may even try to present itself as a ‘guarantor’ of any deal between Washington and Pyongyang.”

CHINA AND THE WORLD

Xi Jinping tries to use SCO summit for show of unity

China and other members of the Shanghai Cooperation Organization (SCO) have used their annual summit to display unity, according to Chinese media reports. The eight SCO member states gathered in the eastern Chinese city of Qingdao last Sunday. For India and Pakistan this was their first SCO summit since joining the organization as full members last year. Russia as well as several Central Asian countries are also part of the group.

Chinese president Xi Jinping **called on the member states** to reject protectionism and unilateralism, positioning himself again as a defender of globalization and free trade. Beijing also emphasized the economic dimension of SCO cooperation, stressing the need to bolster business, investment, finance, connectivity and agriculture cooperation. Chinese media highlighted the success and unity of the summit which coincided with disarray at the G7 meeting in Canada, when US President Donald Trump withdrew from **the final communique**.

However, the SCO meeting was not free of controversies either. **India refused** to back China's Belt and Road Initiative (BRI) which was mentioned in the summit's final statement. India has serious concerns about the BRI because one of its key projects, the China Pakistan Economic Corridor (CPEC), passes through Pakistan-occupied Kashmir.

China hails "strategic partnership" with Russia

The leaders of China and Russia have agreed to step up cooperation on security and military issues, including law enforcement and the fight against terrorism, to address global and regional security challenges. Speaking after a meeting with Russian president Vladimir Putin in Beijing on June 8, China's president Xi Jinping **told reporters** that the existing strategic partnership with Russia was the "highest-level, most profound and strategically most significant relationship between major countries in the world."

Putin's state visit to Beijing took place just before the annual summit of the Shanghai Cooperation Organization (SCO) in the coastal city of Qingdao. According to People's Daily, the two leaders discussed the situation on the Korean peninsula and expressed their disappointment that the United States unilaterally withdrew from the Iran nuclear deal. They said China and Russia would work to safeguard the international accord with Tehran. Xi and Putin also agreed to establish a joint one billion USD (850 billion EUR) investment fund.

During his visit, Putin became the **first foreign leader** to be awarded China's newly-introduced Friendship Medal. The summit underscored the deepening of Sino-Russian ties at a time when both countries have difficult relations with the US. Putin has been particularly keen on closer economic ties with China ever since Western countries imposed sanctions following Russia's annexation of Crimea in 2014.

BRI: Chinese company embroiled in Malaysian corruption scandal

China Communications Construction Company (CCCC), one of the world's largest engineering and construction companies, has found its biggest project in Malaysia embroiled in controversy ever since it agreed to build the 620-kilometer rail link spanning the east coast of the Southeast Asian country. But the controversy could now turn into a veritable scandal. [The South China Morning Post](#) reported this week that the costs for the project were inflated to 60 billion ringgit (12.7 billion EUR) in order to channel funds to Malaysia's troubled state investment agency to pay off debts and finance company acquisitions.

The report says the railway project itself costs less than 40 billion ringgit. In an interview with the newspaper "The Edge", Malaysia's prime minister Mahatir Mohamad expressed concern over the financing of the project which is part of China's Belt and Road Initiative (BRI). Loans from a Chinese bank for the project were "kept abroad" and paid to CCCC in China. Mahatir said, the money should have been paid to a Malaysian branch of the company. He announced an investigation into the financing of the project which is mostly paid for by China.

The case illustrates the many uncertainties surrounding the BRI and the discussions in countries that have signed up to the massive infrastructure plans. For China the BRI, which was first announced in 2013, is not only about economic cooperation but also a key foreign policy project aimed at strengthening Beijing's role as an international player. Research by MERICS shows that China has spent over 25 billion USD (21.3 billion EUR) on BRI projects in the past five years. Projects that are still at the planning stage have not been included in these calculations.

A new project by MERICS is tracking the many global Chinese activities under the BRI label, including success stories and projects that have run into difficulties. The new "MERICS Belt and Road Tracker" went online in early June. The maps and graphics are based on data about existing and planned BRI projects. The information on the website will be regularly updated and expanded over the coming months.

Jan Weidenfeld, Head of the European China Policy Unit at MERICS:

"As the Belt and Road Initiative faces growing headwinds, it will be more important than ever to have a sober assessment of what works on the ground and what doesn't. This is what we will be doing with the BRI tracker in the years ahead."

News in brief

- [Satellite images: China redeploys missiles to disputed island in South China Sea](#)
- [Supportive gesture: United States unveil new representative office in Taipei](#)
- [Preventive hotline: China and Japan want to avert accidental clashes in East China Sea](#)
- [Piraeus workers' protest: China complains to Greek government after Cosco terminal blockade](#)

POLITICS, SOCIETY AND MEDIA

Hong Kong independence activist jailed for six years

The political activist Edward Leung (27) has started a six-year jail term last Monday for his participation in the Mong Kok civil unrest of 2016. He was convicted of participating in a riot and assaulting a police officer but **cleared of a charge** of “inciting unrest.”

The Mong Kok unrest was among the worst clashes in Hong Kong in the last few decades. What began as a protest to protect illegal street vendors quickly turned into an outpouring of anger against authorities in Hong Kong and Beijing with demonstrators hurling bricks and setting alight garbage cans in the shopping district of Mong Kok in February 2016. At the forefront of the protests were young “localists,” a term coined for groups promoting a split from mainland China. The localist movement grew out of the massive pro-democracy rallies in 2014. At the time, Leung was leading one of these groups and considered a rising star on the political scene.

At least 16 other protestors have been convicted in connection with the unrest in Mong Kong. Yet Leung and his co-defendant Lo Kin-man **received the harshest sentences**. The verdict was criticized by the former British governor of Hong Kong, Chris Patten. He called the sentence “extreme” and politically motivated.

Facial recognition technology used to detect gaokao cheating

Sophisticated technology was used to prevent fraud and cheating during this year’s national university entrance exams, known as gaokao (高考). Test sites in the cities of **Guangzhou, Shenzhen, and Qingdao** and in **Jiangsu** province installed facial recognition technology to confirm the identity of the students.

The nationwide entrance exams took place on June 7 and 8. This year, 9.75 million students **were registered** to take the exam – 350,000 more than last year and the highest number in eight years.

Chinese high school students face intense pressure in the years leading up to the gaokao because the results determine their chances of getting into a good university. In the past, the authorities have used a variety of measures to prevent cheating, including iris and finger print recognition, and finger vein recognition. In 2016, the government raised the punishment for cheating to up to seven years in prison.

News in brief

- **Online for homework, not games: Tencent counters criticism with survey on diligent youth**
- **Anti-corruption fight: Commission launches new website to report suspects living abroad**
- **Compliance monitor: Ministry for environment dispatches 200 new inspection teams**

ECONOMY, FINANCE AND TECHNOLOGY

China allows domestic fundraising for tech firms listed overseas

China has adopted new rules that facilitate Chinese investments in Chinese companies listed abroad. The China Securities Regulatory Commission (CSRC) published [a note](#) on June 6 allowing some firms to issue China Depositary Receipts (CDRs), a [vehicle allowing offshore-listed](#) tech firms to make second listings in China. The move allows companies to bring shares home to the domestic market and will give domestic investors access to tech giants such as Alibaba and Baidu, which are listed in the United States.

Smartphone giant [Xiaomi](#), which is expected to [list in Hong Kong soon](#), was the first company to apply for CDRs in mainland China. [New-York-listed Baidu](#) is expected to follow suit soon. Overall, only a handful of tech companies will be eligible to the program. The CSRC said it had set strict selection criteria and would strictly control the size, timing and pace of CDR issuance.

Big tech firms like Xiaomi are set to benefit from the new rules. High demand for their CDRs is likely to drive up share prices abroad and provide additional sources of funding within China. The new rules are also likely to lead to re-adjustments in the portfolios of Chinese investors eager to participate in the growth of some of China's most priced companies.

Smart manufacturing gets new impulse in China

Building on its Made in China 2025 (MIC2025) strategy, China has released an ambitious [plan for the development of the industrial internet](#). In its [3-year action plan, released on June 7](#), the Ministry of Industry and Information Technology (MIIT) sets the goal of encouraging 300,000 enterprises to use cloud platforms and of creating over 300,000 applications for industrial uses. In a [circular released on June 8](#), the ministry announced the organization of pilot projects for the Integrated Development of the Manufacturing Sector and the Internet in 2018.

The two documents provide a new impulse for the Made in China 2025 strategy. The MIIT plan follows an action plan by the National Development and Reform Commission (NDRC) that was released after the 19th CCP Congress last fall. It contained specific goals for MIC2025 key industries. An update of the original MIC 2025 roadmap of May 2015 was released in January 2018.

The development of the industrial internet is key to further China's competitiveness in smart manufacturing. The increasingly strong international backlash against Chinese investment in key industrial technology in developed countries has pushed China's authorities toward more ambitious domestic action plans.

Solar industry urges Beijing to delay subsidy cuts

Chinese solar companies have called for continued financial support from the central government, after Beijing unexpectedly announced drastic cuts to state subsidies to the industry. The solar companies face difficult times after the National Development and Reform Commission (NDRC), the Ministry of Finance (MOF) and the National Energy Administration (NEA) **announced** on May 31 that they would cut subsidies and curb the expansion of China's solar power generation in 2018.

The announcement sent shockwaves through the industry. In a highly unusual move, eleven big solar companies wrote a letter to Xinhua news agency **voicing their concerns**. They urged the government to delay the subsidy cuts and rethink the measures. They said the solar sector was already struggling financially and still needed government backing to compete with traditional power generators.

China is the biggest producer of solar power globally with a capacity of 130 gigawatts at the end of 2017. The surging capacity has left China's power grids creaking, unable to build sufficient transmission infrastructure. The finance ministry has struggled to find billions of yuan in subsidies owed to new projects. The government's measures are also aimed at reducing overall industrial overcapacity and move to a model of more sustainable economic growth.

Kurz gemeldet

- **Shenzhen: New private homes to be capped at 40 percent of supply**
- **Beijing: Price fixing probe into semiconductor makers launched**
- **Investment: New fund to finance emerging industries**
- **China: Foreign reserves decline for second consecutive month**
- **US: ZTE agrees to fine and terms to avoid being cut off from US semiconductors**

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